



Income Tax Scams

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Avoid Income Tax Scams

1. **Trust Misuse.** Unscrupulous promoters urge taxpayers to transfer assets into trusts. They promise less income subject to tax, deductions for personal expenses, and reduced estate or gift taxes. But some trusts do not deliver the promised tax benefits, and the IRS is actively examining these arrangements. Numerous promoters and their clients have been prosecuted since 2001. As with other arrangements, seek advice from a trusted professional before creating a trust.
2. **Frivolous Arguments.** Promoters make outlandish claims: that the Sixteenth Amendment authorizing income taxes was never ratified; that wages are not income; that filing a return and paying income taxes are merely voluntary or violate your constitutional rights. These claims are bogus and have been thrown out of court. You have the right to contest your tax liability, but not to disobey the law.
3. **Return Preparer Fraud.** Dishonest return preparers can cause many headaches for taxpayers. They attract new clients by promising large refunds, but cheat in order to skim a portion of their clients' refunds or charge inflated fees for their services. Choose carefully when hiring a tax preparer and always ask around and shop around. No matter who prepares your return, you are ultimately responsible for its accuracy. Many tax preparers have been prosecuted in recent years.
4. **Credit Counseling Agencies.** Be careful with credit counseling organizations that claim to fix credit ratings and debt problems, but charge their own high fees, service charges, or mandatory "contributions" that add to your debt. The IRS has made it a priority to audit these organizations because some provide little value for the money.
5. **"Claim of Right" Doctrine.** In this scheme, the taxpayer tries to deduct the entire amount of his or her wages, labeling it "a necessary expense for the production of income" or "compensation for personal services actually rendered." This alleged deduction has no legal basis under the Internal Revenue Code.
6. **"No Gain" Deduction.** Similar to "Claim of Right," the taxpayer tries to deduct all adjusted gross income on Schedule A, labeling it "Other Miscellaneous Deductions."
7. **Corporation Sole.** The Justice Department has taken on many promoters of this scheme. Participants apply for incorporation under the pretext of being a "bishop" or "overseer" of a one-person, phony religious organization, claiming to be exempt from federal income taxes. If you are not a leader of an actual bona fide church, you have no business claiming any rights under the Corporation Sole statutes.

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8. **Identity Theft.** Be very careful about disclosing personal financial data. Identity thieves use stolen data to access accounts, run up charges, and open new loans. Do not let scam artists access your data through phony correspondence, e-mail, or other inquiries. The IRS does not use e-mail to contact taxpayers. If you have any doubt whether a contact from the IRS is authentic, call 1-800-829-1040 to confirm it.
9. **Abuse of Charitable Organizations and Deductions.** The IRS has seen greater use of tax-exempt organizations improperly to shield income or assets from taxes. The taxpayer moves assets or income to a charitable organization but maintains control over them, claiming a tax deduction with no real benefit to the charity.
10. **Offshore Transactions.** Despite a recent crackdown, some still seek to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, or private annuities to do so. These abusive transactions are illegal.
11. **Zero Return.** Promoters enter all zeros on the tax return, even if a taxpayer made money. This is illegal, and adding the phrase "nunc pro tunc" does not change that.
12. **Employment Tax Evasion.** Some schemes instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. This advice has resulted in criminal convictions, and employers still have to pay the back taxes, plus penalties and interest. Note also that employees who have nothing withheld from their wages are still responsible for paying income tax.

